

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-01 INR-05

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OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-01 /077 W

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P 101510Z DEC 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 6808

INFO AMCONSUL RIO DE JANEIRO PRIROITY

AMCONSUL SAO APAULO

LIMITED OFFICIAL USE BRASILIA 9249

E.O.11652: N/A

TAGS: EMIN, ENRG, ETRD, BR

SUBJECT: US METALLURGICAL COAL EXPORTS

REFS: STATE 186068 BRASILIA 6542

1. AS REPORTED TELECON, CHARGE, ACCOMPANIED BY ECON COUNSELOR, CALLED ON SECRETARY GENERAL FONOFF RAMIRO GUERREIRO DECEMBER 6 TO DISCUSS DECLINE US METALLURGICAL COAL EXPORTS TO BRAZIL. MEETING WAS AT FONOFF REQUEST. PRESENTING AIDE MEMOIRE, GUERREIRO SAID HE WISHEDTO CONVEY TO US AUTHORITIES GOB'S DEEP CONCERN OVER CONTINUING SHORTFALL IN US COAL DELIVERIES. SHIPMENTS BY US EXPORTERS OVER FIRST TEN MONTHS WERE ONLY SOME 45 PERCENT OF THE AMOUNT FORESEEN UNDER LONG-TERM SUPPLY CONTRACTS AND, DESPITE SUBSTANTIAL BRAZILIAN PURCHASES IN SPOT MARKET, SITUATION IN BRAZILIAN STEEL INDUSTRY WAS RAPIDLY APPROACHING CRISIS POINT. GUERREIRO SUGGESTED THAT US COMPANIES WERE IN VIOLATION OF CONTRACTURAL COMMITMENTS BUT SAID THAT IN VIEW OF TIME INVOLVED IN LITIGATION, BRAZIL DID NOT FIND IT LIMITED OFFICIAL USE

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PRACTICABLE TO SEEK REDRESS IN US COURTS, AS USG HAD SUGGESTED.

NOTING THAT US COAL EXPORTS HAD INCREASED SIGNIFICANTLY THIS YEAR TO ALL PARTS OF THE WORLD EXCEPT LATIN AMERICA (PRINCIPALLY BRAZIL), DESPITE BOOMING US DOMESTIC DEMAND AND COAL MINERS' STRIKE, SECRETARY GENERAL SAID GOB WISHED TO RENEW ITS REQUEST FOR USG INTERVENTION TO PRESS COMPANIES TO COMPLY WITH COMMITMENTS, ESPECIALLY TO INCREASE SHIPMENTS OF LOW-VOLATILE COAL.

2. WE RECALLED HISTORY OF US-BRAZILIAN DISCUSSION. NOTING THAT US COMPANIES CLAIM VARIOUS ESCAPE CLAUSES UNDER EXISTING CONTRACTS AND THAT USG DOES NOT APPEAR TO HAVE ANY LEGAL HANDLES, WE SAID EMBASSY WOULD RECOMMEND WASHINGTON TO GIVE SYMPATHETIC CONSIDERATION BRAZIL'S DILEMMA.

3. AIDE MEMOIRE (WHICH WE ASSUME IS IDENTICAL WITH GOB PRESENTATION IN WASHINGTON) REVIEWS HISTORY OF PROBLEM, INCLUDING SIDERBRAS MANAGING DIRECTOR'S DISCUSSIONS IN WASHINGTON; CLAIMS THAT BRAZIL'S STOCKS OF LOW-VOLATILE COAL ARE PERILOUSLY LOW; THAT DISRUPTION OF STEEL MAKING OPERATIONS OF THREE MAJOR BRAZILIAN COMPANIES (CSN, COSIPA, USIMINAS), IS IMMINENT; AND THAT US IS ONLY POSSIBLE SUPPLIER OF THIS COAL. COMPANIES WHICH BRASILIANS ALLEGE ARE IN DEFAULT OF THEIR CONTRACTS ARE EASTERN, ISLAND CREEK, MASSEY, CONSOLIDATED, AND MITSUBISHI. COPY OF AIDE MEMOIRE BEING POUCHED.

4. COMMENT: BRAZIL IS, OF COURSE, VERY IMPORTANT EXPORT MARKET FOR US OVER LONG-TERM. A MAJOR COMMERCE-LED STEEL INDUSTRY MISSION WILL BE COMING HERE NEXT MONTH. WHILE WE ARE COGNIZANT OF EARLIER USG EXAMINATION OF THIS PROBLEM, EMBASSY SUGGESTS SITUATION WARRANTS HIGH LEVEL DISCUSSION WITH TOP MANAGEMENT OF FIVE COMPANIES, PERHAPS JOINTLY WITH OTHER USG DEPARTMENTS SUCH AS INTERIOR, COMMERCE, TREASURY AND FEA. EMBASSY ALSO REQUESTING CONGENS RIO AND SAO PAULO TO DEVELOP SUCH ADDITIONAL INFORMATION ON SITUATION OF THREE BRAZILIAN COMPANIES AND BRAZILIAN COAL SITUATION AS CAN BE OBTAINED WITHOUT ATTRACTING UNDUE NOTICE AND WILL REPORT RESULTS.
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